

1 **BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

2
3 **In the Matter of the Application of**
4 **Lakeview Water Corporation for Approval**
5 **Of its Proposed Water Rates Schedules**
6 **And Water Service Regulations**

Docket 06-540-T01
Division of Public Utilities
Testimony of Krystal
Fishlock- McCauley

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11 **SECTION I - INTRODUCTION**

12 **Please state your name and address.**

13 Krystal Fishlock-McCauley. I live at 2235 Pow Wow Trail, Beloit, Wisconsin.

14
15 **Please state your position with Lakeview Water Corporation, Inc. (“Lakeview”).**

16 I was contracted by the company to participate in the maintenance of Lakeview’s
17 accounting and regulatory books and records. I was also contracted to consult with the
18 company on regulatory issues and to prepare accounting worksheets and provide expert
19 witness testimony for this rate case.

20
21 **Please give a brief overview of your qualifications as a company witness for**

22 **Lakeview.**

23 I have 15 years experience in accounting which includes 8 years experience in public
24 utility regulation. I worked six years with the Division of Public Utilities on various
25 regulatory issues and spent an additional two years working for Wolf Creek Resort in
26 charge of water and sewer regulatory issues. A copy of my resume is attached hereto as
27 Exhibit No. LWC 1.1.A.

1

2 **Please state the purpose of your testimony.**

3 The purpose of my testimony is to summarize the company's position on several issues
4 that have been raised during the course of the hearing process in this case. I will proceed
5 as follows:

6 Section II – Overview

7 Section III – Costs Relating to Future vs Existing Customers

8 Section IV – Recovery of Ratebase

9 Section V – Basis for 2005 Test Year

10 Section VI – Why 125% Increase Now vs Phase-in Over Time

11 Section VII – Conclusion

12

13 **SECTION II – OVERVIEW**

14 **Please provide a brief overview of the Lakeview's position concerning the main**
15 **issues in this case.**

16 Lakeview obtained its Certificate of Convenience and Necessity in a 1983 certification
17 case. Ski Lake, as the parent company of Lakeview, funded the original purchase of
18 water system assets and has continued to provide funding of both operating and capital
19 expenses since that date. Ski Lake is currently developing condominiums and homes
20 within the service territory of Lakeview.

21

22 Regulated rates are designed to provide a recovery of annual expenses and an allowable
23 return in order for a utility to maintain, upgrade, and "expand" its system within its

1 designated service territory. By virtue of Lakeview's Certificate of Public Convenience
2 and Necessity, Lakeview is entitled to expand its system for the needs of all development
3 activities within its service territory.

4
5 During the course of this case I have reviewed the issues raised by the Intervenor, Mr.
6 Frank Cumberland, as well as other customers testifying at the hearings. Each issue
7 raised by Mr. Frank Cumberland appears to stem from the same argument, that cost
8 relating to the development activity of Ski Lake should not be recovered in rates charged
9 to existing customers. Although this argument sounds justifiable, it is based on two main
10 misunderstandings: 1) that all increases in operating and capital costs are due solely to
11 the development activities of Ski Lake and thus should not be charged in rates to existing
12 customers; and, 2) that Ski Lake has recovered the cost of water system assets in its land
13 sales and or tax depreciation and thus any inclusion of these costs in customer rates
14 would be a double recovery. My testimony, in conjunction with the testimony of Mr.
15 Mark Babbitt, P.E., will indicate that Lakeview's rates requested in this case are based
16 on reasonable, prudent, and justifiable expenses and capital investments that should be
17 recovered from all utility customers in Lakeview's service territory.

18

19 **SECTION III – COSTS RELATING TO FUTURE VS CURRENT CUSTOMERS**

20

21 **What is your understanding of the issue concerning costs for future development?**

22 There were two main areas discussed concerning costs for future development customers:

23 1) engineering type expenses, 2) the cost of the 2004 water tank, and, 3) the cost to

1 annually secure 538 af of water. First, it should be noted that there are individually
2 owned lots in the Lakeview service territory in which residences are constructed and to
3 the water system each year. I believe that the concern raise by Mr. Cumberland is
4 focused on the buildings and homes being built directly by Ski Lake. To summarize, Mr.
5 Cumberland is claiming that the cost to provide water to newly developed residences is
6 not useful for existing customers; therefore existing customers should not bear any of the
7 cost.

8
9 This standpoint does not consider the responsibility of a certificated water utility to
10 provide water service to its entire service territory regardless of the developer. We would
11 not be discussing this issue if the developer was any company other than Ski Lake. The
12 true issue is whether there are separately identifiable costs borne by the water company
13 that should be recovered in rates and charges to customers. As discussed in the overview
14 above, Lakeview should be allowed to recover legitimate operating and capital costs from
15 its customers. I believe we have demonstrated that the costs included in this case are in
16 fact legitimate water company operating and capital costs.

17

18 **What about charging a higher rate to the customers in the development area versus**
19 **existing customer?**

20 This solution was mentioned at some point during the hearing process, that all expansion
21 costs should be borne by the new customers. I find no record of the Commission
22 requiring different rates for customers within a service territory based solely on date of
23 service. Separately tracking and monitoring costs based on development area would be

1 cumbersome and costly for this small water company. Who would bear those costs? It
2 could be seen as a benefit to both classes of customer. There are substantial costs to
3 maintain the facilities of the existing customers and what about the years in which those
4 costs are incurred? Should the new customers bear those costs? I could go on and on
5 with this by suffice it to say that in a small water company such as this, all costs should
6 be borne equally. In the long run, all customers benefit from new wells, new lines, etc.
7 which bring efficiency and stability to the entire system.

8

9 I believe we have demonstrated that the costs included in this case are truly water
10 company costs. One such cost in question was the meters installation costs occurring in
11 2006.

12

13 **Yes, what about the meters? Please clarify where they were installed and why**
14 **should they be an allowable cost in rates to all ratepayers?**

15 Briefly, according to the company and documentation provided, the meters were listed on
16 an invoice from Castle Rock Excavation and the title of the project was Ski Lake
17 Chalets/Water. Per discussion with the company, the meters were purchased and
18 installed during the same time as the road construction to the Chalets. The meter was
19 actually installed at Lakeside Village and was an upgraded meter to replace the existing
20 meter which had reached its capacity. Even if it was meters installed at the Chalets, it
21 would still be a justifiable cost passed on to customers in the form of connection fees.
22 Since this meter is an upgrade, it was appropriately re-categorized by Mr. Hicken and
23 myself to the appropriate asset account.

1

2 **There seems to be some ambiguity concerning the connection fee. Please discuss the**
3 **connection fee and “CIAC.”**

4 CIAC is an acronym for Contributions in Aid of Construction. It is normally
5 synonymous with the connection fee. This means that if the connection fee is \$4,000,
6 then the CIAC would be \$4,000. The CIAC is used as a direct offset to ratebase (the
7 original cost of water facility assets.) This creates a direct recovery and no depreciation
8 expense on certain assets up to the amount of accumulated CIAC. In this case, Lakeview
9 is asking for a split of the 75/25 split of the connection fee. 75% to go directly to offset
10 water facility asset costs and 25% to go directly to revenue which ultimately offsets
11 annual expense costs. This ratio has been approved in prior water utility rate cases, and
12 appeared to me to be a prudent accounting for the connection fee in this case.

13

14 **Does the CIAC or the connection fee go to the developer?**

15 No. It does not. Mr. Cumberland asked this question to Mr. Hicken in the first hearing.
16 Mr. Hicken answered something to the effect that the connection fee does go to the
17 developer. This is incorrect. In the preceding paragraph I explained the accounting of
18 the connection fee and CIAC. None of the monies collected is paid to or given to the
19 developer.

20

21

SECTION IV – RECOVERY OF RATEBASE

22

1 **There has been discussion that Lakeview should not be allowed to recover assets**
2 **that were purchased or installed by the developer. Please discuss.**

3 R746-330-6 entitled “Ratebase Treatment of Developer-owned Water or Sewer Company
4 Assets—Presumption of Recover” states:

5 There is a rebuttable presumption that the value of original utility plant and assets
6 has been recovered in the sale of lots in a development to be served by a developer-
7 owned water or sewer utility.

8
9 Lakeview is one of several company’s that originated from a parent company who also
10 owns and develops land in the same geographical areas as the water facilities. Lakeview
11 filed and received a Certificate of Convenience and Necessity to provide water to
12 customer in a 1983 certification case. Lakeview has maintained its certificate since that
13 date. Where a company, such as Lakeview, holds a certificate and documents separate
14 books, the water facilities are considered regulatory assets and thus are included on books
15 of the water company, not the developer.

16
17 The developer on the other hand, is required to install the distribution lines within its
18 development area and subsequently transfer these assets to the water company at no cost.
19 Lakeview IS NOT requesting recovery of the distribution lines installed by Ski Lake, the
20 developer; however, Lakeview IS asking for recovery of all accumulating and
21 transportation facilities, distribution lines installed home by home in the existing
22 development areas, the costs of connecting homes to the distribution lines including

1 meter installations, and all other allowable regulatory assets. Recoverable costs include
2 annual depreciation of original costs at rates set forth by the Commission.

3

4 Please see assets listed on DPU Exhibit No. 1.0 (B) of DPU's Memorandum dated
5 August 6, 2007. All assets listed as #1 through #22 were dated 1981 through 1983 and
6 are for original purchase of utility assets from the prior owner and upgrades made to the
7 system upon purchase. The original purchase and upgrades were funded by Ski Lake.
8 Ski Lake continues to be Lakeview's primary source of funding for its capital projects.
9 These assets have been on the books since Lakeview received its Certificate of Public
10 Convenience and Necessity and established its rates in a 1983 certificate case. There is
11 no reason that any of these assets should be in question in this or any subsequent rate case
12 since they were approved by the Commission in the certification case. As you will note,
13 Mr. Hicken did not number the water tanks that he added to the listing.

14

15 **What about the 1983 water tank? Despite the DPU assertion that this tank should**
16 **be included in Lakeview's ratebase, you stated in the first hearing that the company**
17 **is not requesting the tank be included in its ratebase. Is this still Lakeview's**
18 **position?**

19

20 No. The 1983 tank should be included on the books of Lakeview at its full cost, net of
21 regulatory based accumulated depreciation as indicated in the DPU's filing and request
22 the Commission admit this asset into ratebase.

23

1 **Why the change in position on the 1983 tank.**

2

3 I first requested the Lakeview not request the inclusion of the tank for two reasons. First,
4 I had not determined the cause for the discrepancy that a water asset was listed on the
5 books of the developer and not the water company. I was specifically concerned because
6 the entry to the books was made the same year Lakeview filed for its Certificate of
7 Convenience and Necessity. Secondly, I felt that it would be a good faith effort to try
8 and compromise with Mr. Cumberland and ease his tension concerning the rate increase.
9 Neither reason continues to hold weight to preclude Lakeview from attaining recovery of
10 its rightful water system asset. In more recent discussions with Lakeview's tax preparer
11 and Mr. Ron Catanzaro, there were improvements made to this tank subsequent to the
12 original purchase. These costs were paid for by Ski Lake. There is no documentation to
13 indicate why the tank and its improvements were listed on the books of Ski Lake instead
14 of Lakeview, or whether the tank and its improvements were included in the company's
15 certification case. It was evident, based on the similar discrepancy found with the 2004
16 water tank, that Lakeview's tax preparer was not fully aware of regulatory accounting.
17 Mr. Bruce Moio of the DPU identified this discrepancy during his onsite audit subsequent
18 to the company's original filing in this case. It is now my position that the company's tax
19 preparer did not book this asset appropriately. It should have been charged to Lakeview
20 and listed as an asset thereto. Please note that it is important that the water company
21 maintain a full accounting of its assets for reasons beyond rate setting, such as ownership
22 rights.

23

1 **But what about “double recovery” due to the assets being almost completely**
2 **depreciated by the developer for tax purposes?** There is no such thing as double
3 recovery due to tax depreciation. Tax deductions for assets does not produce a recovery
4 of original cost. It merely creates a deduction the company claims to lower its tax
5 burden. This does not change a company’s cash inflows. True recovery of the assets of a
6 regulated utility comes directly from the ratepayers in the form or rates and charges.

7

8 **SECTION V – BASIS FOR 2005 TEST YEAR**

9

10 **What are the test year requirements of Utah Code Section 54-4-4?**

11 Utah Code Section 54-4-4(3) states:

12 (a) If in the commission’s determination of just and reasonable rates the
13 commission uses a test period, the commission shall select a test period that , on
14 the basis of evidence, the commission finds best reflects the condition that the
15 public utility will encounter during the period when the rates determined by the
16 commission will be in effect.

17 (b) In establishing the test period determined in Subsection (3)(a), the commission
18 may use:

19 (i) a future test period that is determined on the basis of projected data not
20 exceeding 20 months from the date a proposed rate increase or decrease is filed
21 with the commission under Section 54-7-12;

22 (ii) a test period that is:

23 (A) determined on the basis of historic data; and

- 1 (B) adjusted for known and measurable changes; or
- 2 (iii) a test period that is determine on the basis of a combination of:
- 3 (A) future projections; and
- 4 (B) historic data.
- 5 (c) If pursuant to this Subsection (3), the commission establishes a test period that
- 6 is not determined exclusivbely o the basis of future projections, in determining
- 7 just and reasonable rates the commission shall consider changes outside the test
- 8 period that:
- 9 (i) occur during the time period that is close in time to the test period;
- 10 (ii) are known in nature; and
- 11 (iii) are measurable in amount.

12

13 The next subsection goes on to discuss the Commissions use of a prudence standard for

14 costs included in the formulation of rates.

15

16 **Why did Lakeview use 2005 as its test year and how is this justifiable based on**

17 **Subsection (3) of Utah Code Section 54-4-4?**

18 The Commission has historically allowed a historic test period with known and

19 measurable adjustments to fulfill the requirements of this code section. The initial filing

20 of this case did just that. The case was filed in late 2006 and was based on a 2005 test

21 year with adjustments that were known and measurable at that time. Since that date, the

22 DPU has revised the test year to not only include additional 2006 calendar year events

1 but 2007 also. This is contrary to the allegation of Mr. Cumberland that the test year is
2 not relevant and has not included the growth expected by the company.

3

4 **Please give a brief history of the events and time lapse that has occurred since the**
5 **date of the filing and explain how Lakeview has continued to comply with the test**
6 **year requirements.**

7

8 My work with Lakeview began in the spring of 2006. The books of record were not
9 complete and available till summer of 2006 at which time I began my review. It was late
10 2006 before we were ready to file the petition. The filing was based on historic 2005 data
11 with adjustment for known and measurable events occurring in 2006.

12

13 In early 2007, the DPU commenced its investigation. The DPU investigation began with
14 Mr. Bruce Moio with an onsite inspection of the facilities and the company's books and
15 records. The investigation continued with Mr. Hicken and included at least two direct
16 telephone conversation between Mr. Hicken and myself and two additional indirect
17 conversations via telephone with Lakeviews attorney's office along with written
18 responses to four data request.

19

20 During the course of the DPU investigation, the DPU and I discovered the mistaken
21 exclusion of the water tanks and that the additional Lakeside condominium units were
22 formally on-line. The DPU proposed to include the water tanks in Lakeview's ratebase

1 and include the additional Lakeside Villages customer count in Lakeview's revenue
2 calculation.

3

4 Mr. Cumberland contends that Lakeview's filing is deficient because it does not consider
5 future growth, specifically 8 condominiums and 6 homes being built by Ski Lake. Mr.
6 Cumberland is mistaken. Lakeview's original filing included a projection for the
7 addition of 8 condominiums (multi-family units) and 6 homes that were projected to be
8 built in 2007 and connect to the water system in 2008. Only the connection fee and
9 standby fee was included in this rate case adjustment. Conclusively, the DPU's proposal
10 updates Lakeview's original filing to include not only actuals from 2006 but revenue
11 projections for 2007. See DPU Exhibit No. 1.3 to its Memorandum dated August 16,
12 2007.

13

14 **What about 2008 projections? Should they be part of this case also?**

15 This question raises more questions than just including homes under construction. Per
16 Utah Code Section 54-4-4(3)(b) states:

17 (b) In establishing the test period determined in Subsection (3)(a), the commission
18 may use:

19 (i) a future test period that is determined on the basis of projected data not
20 exceeding *20 months* from the date a proposed rate increase or decrease is filed
21 with the commission under Section 54-7-12; [italics added for emphasis.]

22

1 A 20 month projection from the end of 2006 puts us into late summer 2008. Based on
2 discussion with the company, there will not be additional homes or condominiums built
3 within that time frame. Possibly Ski Lake would start a construction of a couple more
4 homes in late 2008 but most likely not until 2009. Additionally, there are other future
5 costs that have not been mentioned or addressed by Lakeview. The company is facing
6 both higher operating and higher facilities costs in the future, not lower. As Mr. Babbitt's
7 testimony indicates, there are upcoming facilities maintenance and reconstruction costs
8 that will be incurred, the cost of which is to be determined but could run anywhere from
9 \$100,000 to \$150,000. Additionally, Lakeview intends to hire operating personnel.
10 Currently, Mr. Catanzaro operates the company without compensation by Lakeview. The
11 company intends to staff its operation with a manager and a part or full-time office
12 technician who will perform some accountant and customer service functions operations.
13 In my estimation, the company is looking at somewhere between \$50,000 and \$60,000 in
14 annual personnel costs. If the Commission is going to require additional adjustment for
15 future revenues to those proposed by Lakeview and the DPU, then the Commission must
16 also address additional costs.

17

18 **Are there any other costs that were not fully addressed in these proceedings?**

19 Yes. The cost of the rate case. In my experience in working at the DPU and then at Wolf
20 Creek Resort, rate case costs are part of the operating costs included in a utility's revenue
21 requirement and calculation of rates. At least 50% of rate case costs were historically
22 allowed in rates. The DPU requested that all of the proposed costs relating to accounting
23 service provided by myself be eliminated from revenue requirement. These costs have

1 exceeded the amount originally forecasted by Lakeview and myself. In addition, the
2 company has incurred approximately \$25,000 in attorneys' fees for this case. Any
3 further recalculation of Lakeview's revenue requirement must address this issue.

4

5 **SECTION VI – WHY A 125% INCREASE NOW VS. PHASE IN OVER TIME**

6

7 **Why should Lakeview be allowed to increase its rates so dramatically?**

8 Lakeview is not able to fund its own utility operations. I believe that it is prudent for this
9 company to work toward being a self-sufficient and reliable water utility. In my first
10 round of analyzing prospective rate calculations, I included a projection for the costs
11 discussed in the preceding section, along with a 3% increase in all operating costs and a
12 10% increase in ratebase. The base water usage rate was almost twice what Lakeview
13 actually petitioned for. I and Lakeview were shocked. Lakeview and I decided that it
14 would be best if we file the most conservative case possible and petition for a lesser rate.
15 We even decided to take it one step further a decrease the rate below what would be
16 necessary for the company to meet its actual revenue requirement, under the condition
17 that Ski Lake would continue to fund any shortfalls until such time as Lakeview could
18 file additional rate cases and increase the rate to a level that would render Lakeview a
19 self-sufficient organization. Lakeview agreed and the filing was made at the reduced rate
20 with the understanding that Lakeview would file another rate case in two to three years.

21

22 **Are Lakeview's proposed rates just and reasonable?**

1 Yes. In most rate cases, it is my experience that the terms just and reasonable as
2 discussed in Utah Code Section 54-4-4 are fairly understood. But what about the
3 principle of sufficiency? It is no doubt a shortcoming on the part of Lakeview that is has
4 not requested a rate increase in over 22 years. It is about time. But if the company does
5 not receive relief soon, it will continue to run on skeleton crews and put off seemingly
6 unnecessary facilities costs that could hurt the company and its customers in the long run.
7 Lakeview should be allowed to charge rates sufficient to operate the company in an
8 efficient and effective manner.

9

10 **What about phasing in the proposed rate over a period of 2 years, or even 5 years?**

11 A recommendation for a phase-in of the proposed rates at this time is not ideal and will
12 not provide the company with necessary cash flow needed to operate today nor during the
13 phase in period. It does not consider forecasts of costs that will be incurred during the
14 phase in period, nor does it address the shortfall Lakeview is currently experiencing.

15

16

SECTION VII – CONCLUSION

17

18 **Please provide any concluding remarks and/or recommendations to the**
19 **Commission.**

20 First, I'd like to remind the Commission that it is not uncommon to have a small utility to
21 request a rate case after several years of doing business and need a significant hike in
22 rates. Each case of this sort that I personally witnessed included live testimony of
23 customers that were very displeased with the increase. The only cases in which the

1 Commission ordered phase of rates was in cases that the utility itself was proposing the
2 phase in. That is essentially what Lakeview is already doing. As I have discussed, it is in
3 my opinion that this company will need increased cash flows (increased annual revenues)
4 in the years to come and require additional rate cases to obtain approve for those
5 increases.

6

7 The cost of this rate case has far exceeded my expectations and that of Lakeview. It is
8 my recommendation the Commission approve the rates and charges as set for in
9 Lakeview's proposed schedule of rates and charges. These rates are in line with other
10 similarly situated companies and are sufficient to provide the necessary funds for
11 Lakeview to operate in an efficient and effective manner.

12

13 **Does this conclude your testimony?**

14 Yes it does, thank you.